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**Response from the Pensions Management  
Institute to DWP consultation: 'Ending the  
proliferation of deferred small pots'**





## **Pensions Management Institute**

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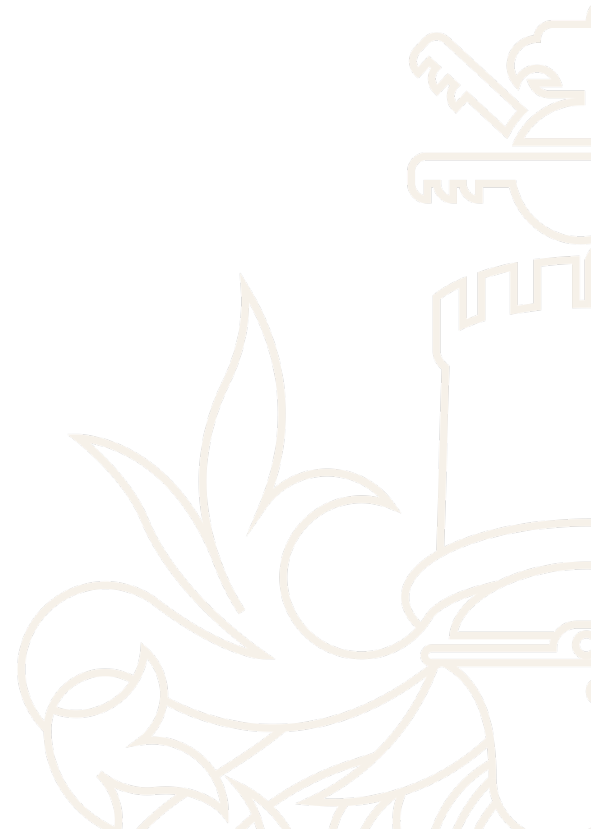
# **Response from the Pensions Management Institute to DWP consultation: 'Ending the proliferation of deferred small pots'**

## **Introduction**

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 7,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

We trust that the feedback in the following pages proves helpful.



## **Executive Summary**

At the PMI we are always happy to support initiatives which seek to help members understand their pension benefits and maximise them by keeping track of all pension benefits for all periods of employment, no matter how brief.

We were keen advocates of member follows pot follows member, however we see the direction of travel the Government is looking to move towards and we will support it to help members.

There are a number of areas which need to be taken account of which we expect will come out in the detail and the required changes in legislation.

**1. Do you agree with this proposal or do you believe a central registry would be more effective approach to support the consolidation of deferred small pots. If so, how would you design a central registry?**

We support the creation of a Clearing House over a Central Registry.

The proposed clearing house having oversight of all pension scheme and their members, will help provide a more efficient approach as often delays are experienced between members, transferring schemes and receiving schemes. This approach where the clearing house can contact members directly will keep things moving.

Our main concern is around the cost and time take to create this entity. We have seen in the past that new systems being set up can become expensive with costs spiralling from the initial estimates. How will this be funded?

Also, how long will such a clearing house and appropriate systems take to set up, test and become usable. There will also be concerns about data protection as there has been for pensions dashboards.

The idea of a central registry which is an extension of the pensions dashboards will be accepted with all sorts of concern. We have seen the delays creating pensions dashboards, and something additional at this stage could undermine any success the pensions dashboard might have.

**2. Which, of the options we have set out, do you think is the best approach to allocate a member a default consolidator in cases where a member does not make an active decision? Are there alternatives?**

We believe option B is the most appropriate option as the member has already made a decision to have some of their benefits held there.

Where this comes unstuck is where the member does not already hold a pot with one of the default consolidators. Ideally we would need the member to make a decision, however where the member isn't communicating about their benefits, a decision needs to be made to allocate to a designated consolidator.

The overall concerns we have about which consolidators are used, is whether this affects the returns received by members. If a member's pots are allocated to a default consolidator and that consolidator underperforms in comparison to its peers, will the member have the right to complain as the decision was almost made "for them"?

The appointment of the default consolidators needs to be carefully thought out and decided upon for a number of possible complaints which may arise.

**3. Do you agree that there is a need for an authorisation regime for a scheme to act as a consolidator? If so, what essential conditions do you think should form part of the authorisation criteria?**

We do believe that there is a need for an authorisation regime to act as a consolidator. Whereas the TPR has set up their requirements to be authorised as a master trust, this is something slightly different.

The essential conditions could include:

- Clear member communications – however the Consumer Duty regulations will help.

- Clear demonstratable process for dealing with transfers efficiently.
- Default funds suitable for small pots.
- Value for money.

**4. Do you agree with setting the initial maximum limit for consolidation at £1,000, with a regular statutory review?**

We believe the £1,000 limit is too low. We can see from the call to evidence that it is estimated that £1,000 pot would be generated inside 45 weeks. We will experience an ongoing increase in small pots unless we set the limit higher to capture small pots which will be increasing as people earn more with the increase in the national living wage.

If the £1,000 limit is regularly reviewed with an appropriate index, this may help stem the estimated rise in small pots.

**5 Do you agree with this proposal not to mandate schemes to undertake same scheme consolidation at this current time?**

We believe the idea of same scheme consolidation is a good first port of call for consolidation, however it needn't be mandated because of the potential pitfalls it may introduce.

Surely what we are looking to bring about by this whole small pots process, is for members to become more engaged with their pension pots and take responsibility for managing the transfer of pots themselves. If they see the same scheme solution as beneficial for them, they could look at that. But we should not have anything which stops the suggested default consolidator approach from starting as soon as someone is deemed to no longer be an active contributor, which may happen if we are giving members time to decide whether the same scheme approach is right for them.

**6. As a whole, do you agree with the framework set out above for a default consolidator approach? Are there any areas that you think have not been considered, that need to form part of this framework?**

As in question 5, this is another well thought out suggestion, however there are clear hurdles to this unless legislation is changed.

If we are to concentrate on creating a single focussed approach to small pots, we need to keep these simple. We know as an industry we are prone to making things what we believe to be straight forward, however often scheme members either don't understand or are confused.

Let's focus on one clear approach.

**7. Do you have any comments on the positive or negative impacts of a default consolidator approach on any protected groups, and how any negative effects could be mitigated?**

The area of protected members needs to be carefully thought out. Where a scheme has protected retirement benefits, like guaranteed conversion to retirement benefits, these would be hard to transfer without consideration been given to what the member might be giving up.